



IOWA AGRICULTURAL
DEVELOPMENT DIVISION

Iowa's Beginning Farmer Loan and Tax Credit Programs

Iowa Agricultural Development Division



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IADD Programs

- Beginning Farmer Loan Program (BFLP)
- Loan Participation Program (LPP)
- Beginning Farmer Tax Credit Program (BFTC)
- Beginning Farmer Custom Farming Tax Credit Program (BFCF)
- DNR Lease to Beginning Farmer Program*

* Administered by DNR



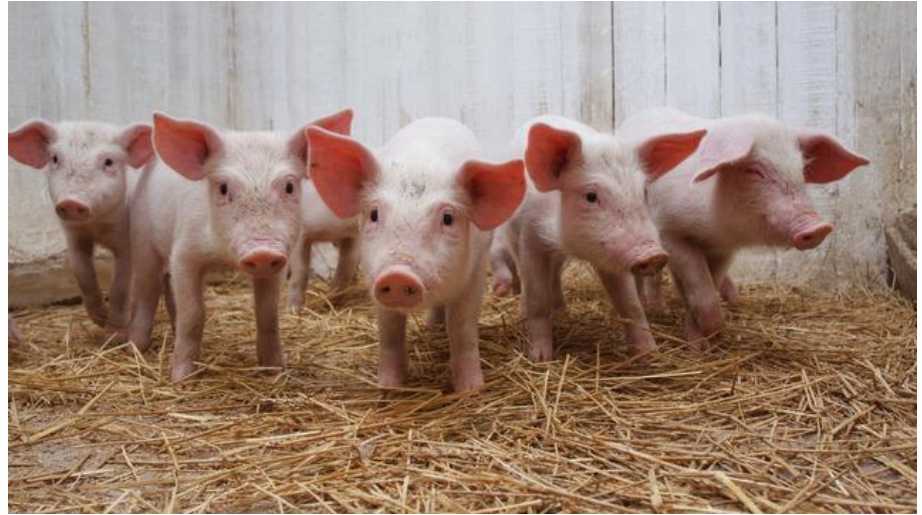
Who is a Beginning Farmer?



- Must have net worth less than \$703,844 for 2015 applications
- Must be at least 18 years old
- Must be a resident of Iowa
- Must be the owner/operator of the farm (cannot lease or hire someone else to do the work)
- Must have sufficient training and experience to operate the farm
- Must have access to needed equipment
- For BFLP, limit on amount of land owned

Approval Procedures

- All applications are due the 1st of month
- Reviewed by IADD board
 - Usually the 4th Wednesday of the month
- Recommendation made to the IFA board
 - Usually the 1st Wednesday of the following month
- Letter sent: approval, denial or subject-to
- Loans can be closed as soon as IFA approves
- Tax credit certificate sent next January





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Beginning Farmer Loan Program

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Beginning Farmer Loan Program

- The Iowa Beginning Farmer Loan Program (BFLP) was established in 1981 to assist new farmers in acquiring agricultural property
- BFLPs are financed by participating lenders or contract sellers with the issuance of federal tax-exempt bonds (if contract sale, bonds are also state tax-exempt)
- The tax-exempt interest income earned by lenders and contract sellers allows them to charge the beginning farmer a lower interest rate
- Typically the beginning farmer will see about a 25% interest rate reduction using the Beginning Farmer Loan Program (BFLP)



Beginning Farmer Loan Uses

- Purchase of agricultural land
- Purchase of depreciable machinery or equipment
- Purchase of breeding livestock
- Purchase or construction of buildings
- Improvements of existing buildings
- Farm Improvements



Maximum Bond Amounts

Maximum bond amount - adjusts annually on January 1st

- \$517,700 for real estate
- \$250,000 for existing buildings or farm improvements
- \$125,000 for new depreciable agricultural property
- \$62,500 for “used” depreciable agricultural property

Restrictions

- Dwelling may not exceed 5% of bond proceeds
- CRP ground may not exceed 25% of bond proceeds
- Combination of the above can be used to reach the maximum bond

Other Provisions

- If beginning farmer does currently or has in the past owned farmland, it must be less than 30% of the county median farm size
- Non-refundable application fee
 - \$50
- Closing fee
 - 1.50% of Bond up to \$250,000
 - 0.75% of amount over \$250,000
 - \$300 minimum



Beginning Farmer Benefits

- Receives a lower interest rate
- Down payment and loan terms are negotiated with bond purchaser (bank or contract seller)
- No restrictions on off-farm income
- May purchase from a closely related party through a third-party lender
- Purchase price on closely related party projects needs to equal appraised value
- Financing on machinery, equipment, breeding livestock or land
- May reapply and benefit from the program until all of the maximum bond has been used or purchased sizeable land tract
- If eligible, down payment assistance may be used with a Farm Service Agency (FSA) loan or an IADD Loan Participation Program (LPP) loan
 - *only when financed through a bank*



Bank Benefits

- Lenders receive federal tax exempt interest
- Opportunity to provide lower interest loan to a "beginning" farmer to obtain agricultural property
- Bank establishes a new long-term relationship with a beginning farmer
- Loans qualify for Community Reinvestment Act (CRA)
- Bank receives beginning farmer checking and savings accounts and possibility of other relatives' and friends' business
- Easy to use application form and loan closing documents
- Use in conjunction with a Farm Service Agency (FSA) loan or Loan Participation Program (LPP) Loan through the Iowa Agricultural Development Division (IADD).



Contract Seller Benefits



- Receives federal and state tax exemption on ALL interest earned on BFLP loans
- Negotiation of loan terms and conditions are between you and the beginning farmer with no government interference
- Can sell farm to a relative, however, only those not closely related, i.e., between aunts, uncles, cousins is okay – not parents, grandparents or siblings
- Easy to use application form and loan closing documents
- Assist beginning farmers with low-interest financing

Using the BFLP and FSA 5/45/50 Together

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
5% of project	Down payment	\$ 43,037		
45% of project	FSA Loan	\$300,000	1.50%	\$4,500
50% of project	BFLP Aggie Bond	\$517,700	4.00%	\$20,708
		\$860,737		\$25,208

% of Project	Funding Source	Total	Interest Rate	1 st year Interest
100% of project	Traditional Loan	\$860,737	5.33%	\$45,877

\$20,699 Interest Savings in the 1st year



Example of Savings Using the Beginning Farmer Loan Program

5.33% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	517,700.00	Rate (per period)	5.330%
Annual Interest Rate	5.33%	Number of Payments	30
Term of Loan in Years	30	Total Payments	1,048,633.82
First Payment Date	1/1/2016	Total Interest	530,933.82
Payment Frequency	Annual	Est. Interest Savings	0.18
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		34,954.47	

4.00% Interest Loan Amortization Schedule

Loan Information		Summary	
Loan Amount	517,700.00	Rate (per period)	4.000%
Annual Interest Rate	4.00%	Number of Payments	30
Term of Loan in Years	30	Total Payments	898,159.35
First Payment Date	1/1/2016	Total Interest	380,459.35
Payment Frequency	Annual	Est. Interest Savings	(0.08)
Compound Period	Annual		
Payment Type	End of Period		
Annual Payment		29,938.64	

	5.33% Interest	4.00% Interest	Total Savings using BFLP
Loan Amount	\$517,700	\$517,700	
Total Interest	\$530,934	\$380,459	\$150,475
Annual P&I Payments	\$34,954	\$29,939	\$5,015
Total P&I Payments	\$1,048,634	\$898,159	\$150,475





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Loan Participation Program

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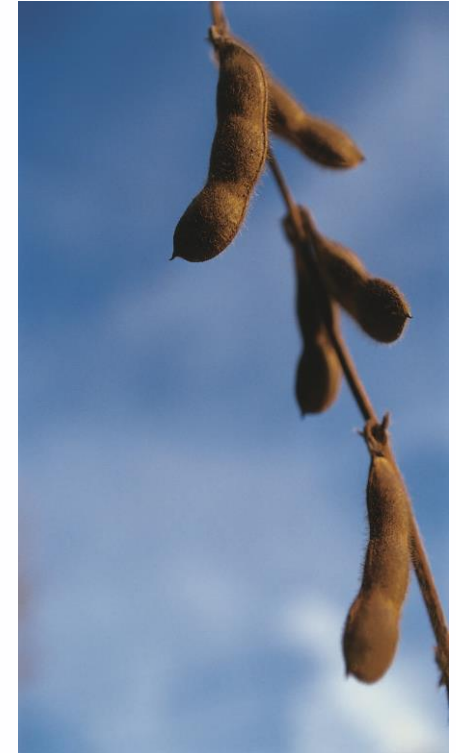
Loan Participation Program

- The Loan Participation Program (LPP) was established in 1996 to help supplement a beginning farmers down payment to purchase agricultural assets
- This is a last-in/last-out loan participation for the bank so it enables them to finance more beginning farmer projects while taking some of the risk off the bank



Maximum and Loan Terms

- Maximum loan participation is 30% of purchase price up to \$150,000
- Current interest rate is 2.50%
 - Fixed for 5 years
 - 1.00% above FSA Direct Farm Ownership Down Payment Loan Program
 - 10 year balloon (amortized over 20 years)
- Can be used with Beginning Farmer Loan Program (BFLP)
- Non-refundable application fee
 - \$100
- Closing fee
 - 1.25% of IADD participation loan
 - \$300 minimum



Underwriting criteria

- Maximum debt level at time of application
 - Less than \$400,000
 - Aggregate of participated loan < 3X borrower net worth
- Farm debt-to-asset ratio <80% at closing
- Current ratio >1.1 to 1 at application
- Off-farm income <50% of projected gross income
- Collateral appraisals by qualified 3rd party appraiser
- Property not eligible if house value >50% of appraisal



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Beginning Farmer Tax Credit Program

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Beginning Farmer Tax Credit Program

- The Beginning Farmer Tax Credit Program (BFTC) was established in 2007 to encourage agricultural asset owners to lease land, equipment and/or breeding livestock to qualified beginning farmers
- Provides owner a credit on Iowa income taxes owed
 - 7% on cash rent
 - 17% on crop share
 - 1% additional first year if beginning farmer is a military veteran
- Tax certificates sent January--following year



Other Provisions

- 2-5 year lease term (Can reapply)
 - Tax credit issued annually during lease
 - Renewable at expiration (with re-qualification)
- Flex leases only calculated on base rent
 - No tax credit on bonus
- Lease value not higher/lower than market
- Related party transactions OK
- Application fee
 - \$200
- Annual Servicing Fee (All due at time of application)
 - \$50 service fee for each year of cash lease
 - \$100 service fee for each year of crop share lease



Calculating Cash Rent Tax Credit

- 160 acres cash rented
- \$200 per acre
- $160 \times \$200 = \$32,000$
gross lease income
- $\$32,000 \times 7\% = \$2,240$
Iowa income tax credit



Calculating Crop Share Tax Credit

- Allocation of acres and yield
 - 50% to corn and 50% to beans
 - Yield determined by USDA data
(Historical average of county's T-yield)
- Price = USDA RMA state fall price
- Submit FSA Form 156
 - Confirms farm location, acres, ownership
 - Beginning farmer to be listed as operator
 - Names must match lease and application names



Crop Share Example

160 Acres allocated 1/2 to corn, 1/2 to soybeans:

- $80 \text{ acres corn} \times 167 \text{ bu/acre} \times 50\% \times \$3.49 \times 17\% = \underline{\underline{\$3,963.24}}$
 - Total corn crop = 13,360 bushels
 - Owner's share = 6,680 bu.
- $80 \text{ acres soybeans} \times 48 \text{ bu/acre} \times 50\% \times \$9.65 \times 17\% = \underline{\underline{\$3,149.76}}$
 - Total soybeans crop = 3,840 bushels
 - Owner's share = 1,920 bu.
- Total share lease tax credit = \$7,113.00

Flex Contract Example

- **No tax credit provided on flex lease bonus**
- **No variable factors permitted** on number acres, breeding livestock, etc.
- Can operate lease per flex terms, but need to authorize IADD to consistently use either:
 - Cash rent base OR
 - Crop share terms





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Custom Farming Tax Credit Program

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Custom Farming Tax Credit Program

- The Beginning Farmer Custom Farming Tax Credit Program (BFCF) was established in 2013 to encourage agricultural asset owners to custom hire qualifying beginning farmers
- Provides owner a credit against Iowa income taxes
- Credit equals 7% of amount paid to beginning farmer



Other Provisions

- Contracted work must be for the production of crops or livestock
- Contract must be in writing and for less than 12 months and signed by all parties involved
- Beginning farmer must provide everything needed for contracted work (including labor and machinery)
- Taxpayer must provide proof of payment
- Contract cannot be between spouses, children, or siblings
- Application fee
 - \$200

IADD Tax Credit Programs



- \$50,000 maximum tax credit per year per application or taxpayer
- IADD has \$12 million in state tax credits to allocate between the two programs
- Unused credits
 - Can carry forward 10 years
 - Cannot carry back to prior years



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DNR Lease to Beginning Farmer Program

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DNR Lease to Beginning Farmer Program

- The Iowa Legislature created the DNR Lease to Beginning Farmer Program in 2013 as a way to provide leasing opportunities to beginning farmers
- This program is offered and administered by the Iowa Department of Natural Resources (DNR)
- To be eligible to lease the DNR land through this program a Beginning Farmer must be certified as eligible by the Iowa Agricultural Development Division (IADD) of the Iowa Finance Authority (IFA).
- For more information on the program, please visit the DNR web site or contact their office

Loan Program Benefits

Program	Beginning Farmer Benefits	Benefits to Asset Owner and/or Lender
Beginning Farmer Loan Program (BFLP)	<ul style="list-style-type: none"> • Lower interest rate on loan • May purchase from a closely related party through 3rd party lender • No restrictions on off-farm income • May reapply until maximum bond limits are met 	<p>Contract Seller</p> <ul style="list-style-type: none"> • Interest is both federal and state tax exempt <p>Lender</p> <ul style="list-style-type: none"> • Interest is federally tax-exempt • Loans qualify under CRA • Can be used with FSA Beginning farmer loan programs
Loan Participation Program (LPP)	<ul style="list-style-type: none"> • Lower interest on down payment assistance 	<ul style="list-style-type: none"> • IADD participation is last-in/last-out • IADD participation helps lenders with loan to value ratios by taking some of the risk off the bank

Tax Credit Program Benefits

Program	Beginning Farmer Benefits	Benefits to Asset Owner and/or Lender
Beginning Farmer Tax Credit Program (BFTC)	<ul style="list-style-type: none"> • Opportunity to farm more land • Additional income from expanded operation 	<ul style="list-style-type: none"> • 7% Iowa tax credit for cash rent leases • 17% Iowa tax credit for crop share leases • Additional 1% for the first year if beginning farmer is a veteran • Unused tax credits can be carried forward for 10 years
Beginning Farmer Custom Farming Program (BFCF)	<ul style="list-style-type: none"> • Additional income from contracted work 	<ul style="list-style-type: none"> • 7% Iowa tax credit on custom work paid to beginning farmer • Additional 1% if beginning farmer is a veteran • Unused tax credits can be carried forward for 10 years

Contact Us



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